

Highlights



(In thousands)	1972	1971	1970
Net revenues	\$15,277	\$ 7,977	\$ 7,719
Net earnings	\$ 1,577	\$ 454	\$ 110
Working capital	\$ 2,736	\$ 2,471	\$ 1,533
Total assets	\$10,025	\$10,694	\$6,270
Total shareholders' equity	\$ 6,804	\$ 4,341	\$ 3,887
Average shares outstanding	1,450	1,401	1,401
Per share:			
Basic earnings	\$1.09	\$.32	\$.08
Fully diluted earnings	.93	.31	.08
Total assets	7.60	7.63	4.48
Total shareholders' equity	4.69	3.10	2.77



COVER—ARLEQUIN AU CAFÉ (PABLO PICASSO)

The Harlequin character has been a favourite subject for many famous artists since he first appeared in Italian theatre four centuries ago. Picasso, himself, painted more than 15 Harlequins.

The *arlequin au café* was painted in 1901 which was during Picasso's transition period between Spain and France. In 1900, he made the first of three trips to Paris before he established full-time residence in 1904.

These were intensively creative years for Picasso. He was desperately striving to find his way artistically and to earn a living. This was also a time of loneliness for him. These feelings were reflected in his paintings because they were mostly real life scenes comprised of symbolic compositions and affectionate but often haunted portraits. *arlequin au café* was very representative of both his skills and outlook of the period.

The original painting now belongs to the collection of Mr. and Mrs. Henry Clifford of Radnor, Pennsylvania. Copyright for reproduction is held by Picasso S.P.A.D.E.M., Paris.



The Romantic Novel in English Literature

The world of romantic fiction offers the reader delights of a kind which are absent from her everyday life. Identifying herself with the heroine, the romance reader can meet the strong, masterful hero of her dreams and be courted by him. Without stirring from her fireside she can travel to other countries, learn about other ways of life and meet new people. After the vicarious enjoyment provided by such literature the reader can then return to safe reality, where domineering males seldom have to be confronted and trips to the exotic parts of the world never happen, so that illusion is always preserved. As such the romance provides compulsive reading and leaves a feeling of satisfaction and pleasure.

The elements of fantasy offered in the modern romantic novel have a distinguished history. Female novelists have always relied upon a skilful blend of three main ingredients to hold their readers' interest; a hero who was larger than life, a heroine from a similar background as the reader and a sufficiently unknown environment to constitute a setting for the story of their progress from courtship to marriage.

Perhaps the archetype of the strong, silent hero was created by Jane Austen in *Pride and Prejudice*. Tall, handsome and rich, the eligible Mr. Darcy is finally trapped by Elizabeth Bennet, a girl from a modest background. How many young ladies of the period must have thrilled at the glimpses of high society and identified with a heroine who used wit rather than beauty to capture the hero's heart. Later the cult of the dashing hero, typified by Byron and featured in his own life as well as in his poetry, became the vogue. Among the many novelists inspired by Byron's exotic rebels against society were Emily Brontë, who presented the reader with Heathcliff, wild, powerful and violent in *Wuthering Heights*, and her sister, Charlotte, who offered the story of a plain girl who fell in love with a strange, brooding man in *Jane Eyre*.

Realizing the popularity of such heroes, the writers of light fiction since that time have drawn upon them as models for their own creations and the tradition of the masterful lover was firmly established by the end of the nineteenth century, whilst the heroine remained essentially an ordinary girl, swept off her feet by romance. The first readers of *Wuthering Heights*, for whom a journey to the nearest town was an adventure, knew little about the wilds of Yorkshire and the moors must have seemed a distant and romantic setting.

With improved communications, however, such places lost their remoteness and the increasing familiarity of readers with English backgrounds caused a new breed of popular novelists at the turn of the century to introduce more exciting foreign locations, although the now accepted confrontation between a passionate hero and a timid, yet by no means spiritless, heroine remained.

Ethel M. Dell set her tales in India and Elinor Glyn, who used many of the experiences of her own life in her novels, wrote about America, Hungary and Russia. Perhaps the most famous of all the romantic novelists of the period was E. M. Hull, creator of *The Sheik*, who used a desert background. The hero of her torrid romance was immortalized on the screen by Rudolph Valentino.

The strength of the modern romance lies in the traditional mixture of wish fulfilment which it continues to provide. The setting today may have extended to include the Bahamas or Africa, but otherwise little is changed. The current health of the romantic novel demonstrates that a blend of escapism concocted well over a century ago still retains universal appeal.

Board of Directors

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Managing Director, Mills & Boon Limited

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Retired Partner, Richardson Securities of Canada

Lawrence C. Bonnycastle
Vice Chairman
Canadian Corporate Management Company Limited

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Editorial Director (Fiction), Mills & Boon Limited

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Joseph G. Kenberger Jr.
Vice President—Group Director, Beauty Products,
Bristol-Myers Products, New York

Daniel Sprague
President, James B. Carter Limited

Officers

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Martin A. Reaume, Comptroller and Treasurer

Corporate Information

Corporate Office Suite 404, 101 Duncan Mill Road,
Don Mills, Ontario M3B 1Z3

Auditors Clarkson, Gordon & Co., Toronto

Legal Counsel Davies, Ward & Beck, Toronto

Bankers The Toronto Dominion Bank

Exchange Listing The Toronto Stock Exchange

Registrar & Transfer Agent Montreal Trust Company, Toronto,
Halifax, Montreal, Calgary, Vancouver

Annual Meeting 11:00 a.m., May 10, 1973
Canada Trust Building, Penthouse,
110 Yonge Street, Toronto



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Executive Management

HARLEQUIN ENTERPRISES LIMITED



Martin A. Reaume, C.A.
Comptroller and Treasurer
Harlequin Enterprises Limited

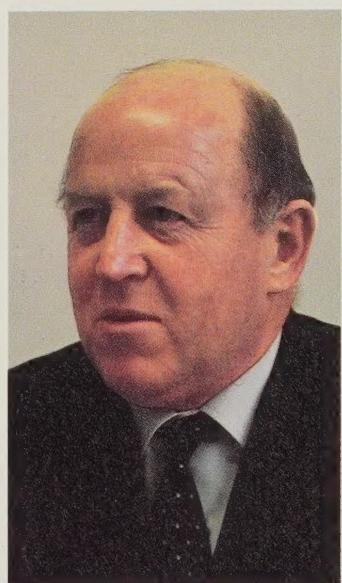
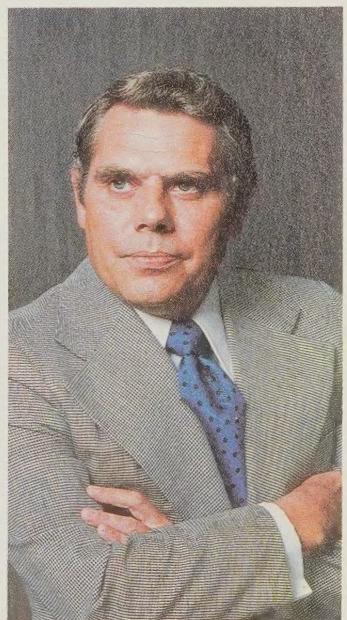
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Alan W. Boon
Editorial Director (Fiction)
Mills & Boon Limited

Glenn G. Johnson
President
Scholar's Choice Limited
and Learning Concepts Limited





Your Company's British and overseas operations are carried out by Mills & Boon Limited, London, England, which was acquired effective October, 1971. Mills & Boon Limited publishes romantic fiction, as well as general and educational nonfiction.

Total revenues of the Mills & Boon Division in 1972 amounted to £1,271,000, an increase of 20% from 1971. Pre-tax profits for the year increased by 31% to £274,000.

Fiction Operations. The mainstay of your Company's business throughout the world is romantic fiction. This is also the product area with greatest growth prospects. The origins and development of this durable genre of English literature are outlined in the gatefold inside this report's front cover.

Mills & Boon is the world's leading publisher of romantic fiction. From Mills & Boon's monthly publishing schedule of fourteen romances in hardcover, both Mills & Boon and Harlequin select titles for their

paperback series. Mills & Boon markets its romances practically everywhere the English language is spoken, except in North America where Mills & Boon titles are published by Harlequin. Over one hundred authors write for this Mills & Boon series.

The Mills & Boon romance backlist represents a valuable resource to publishers in other languages. Over the years, titles from the Mills & Boon list have been sold for translation into fourteen languages. Management has now decided, as a matter of policy, to enter into foreign language publishing ventures wherever practicable, rather than to sell translation rights. The key to this strategy is the selection of a suitable partner and the structuring of an arrangement which will blend local publishing skills and your Company's marketing experience.

During 1972, your Company reached agreement on two joint ventures of this sort, one in the Netherlands for the Dutch language and the other in Brazil for the Portuguese language. Your Company will be at least a 50% participant in each venture. While the contribution to corporate profits from these projects may not be relatively significant for several years, management is confident that this policy direction will yield significant advantages to authors and shareholders over the longer term.



Romance titles have been translated into fourteen languages: Afrikaans, Danish, Dutch, Finnish, French, German, Greek, Hebrew, Italian, Maltese, Norwegian, Portuguese, Spanish and Swedish.

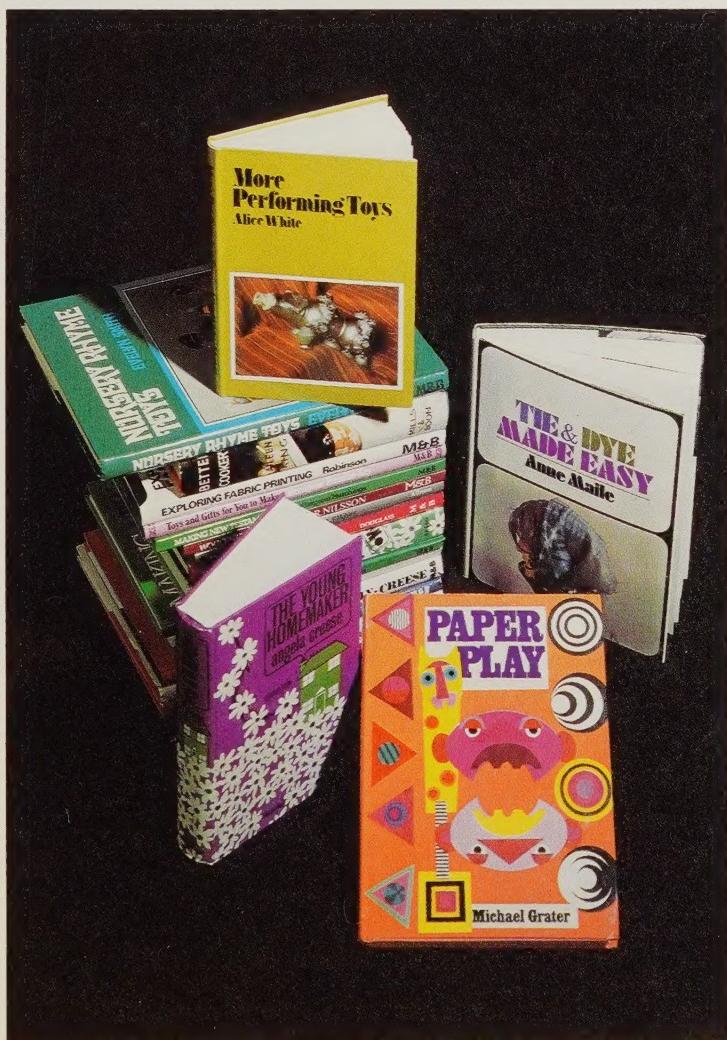


During 1972, a total of 178 original romance titles were published in hardcover and 108 titles were reprinted in paperback.



Nonfiction Operations. Mills & Boon Limited publishes general nonfiction and educational books in both hardcover and paperback. Titles added to the list in 1972 include: *Modern Organic Chemistry* by Professor R. O. C. Norman and Dr. D. J. Waddington; *Biotechnology of Industrial Water Conservation* by B. E. Purkiss; *Discovering Local History* by Paul Titley; *A Taste of the Tropics* by Susan Parkinson and Peggy Stacy; *Making Old Testament Toys* by Margaret Hutchings; *Knowing Your Sewing* by Maureen Goldsworthy; and *A History of English Furniture* by John Harrison.

A large percentage of Mills & Boon's nonfiction sales is derived from its backlist, that is, from titles published prior to the current year. The growing importance of the Mills & Boon general and educational titles provides your Company with diversification of earnings and access to new markets.

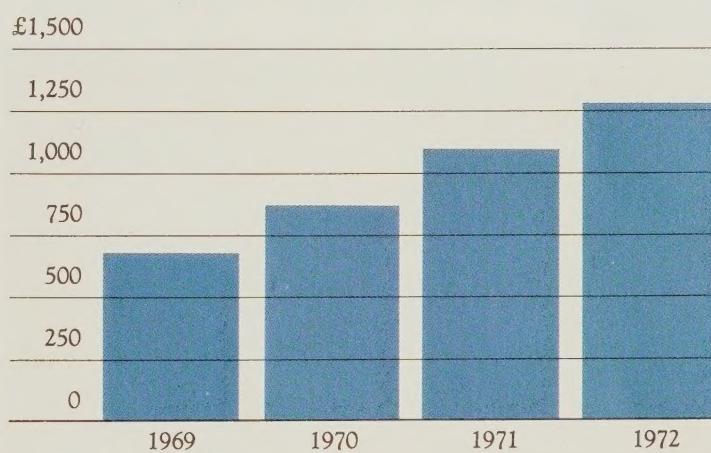


Of growing importance, the line of general and educational titles is now exported to all English speaking markets, including Canada and the United States.

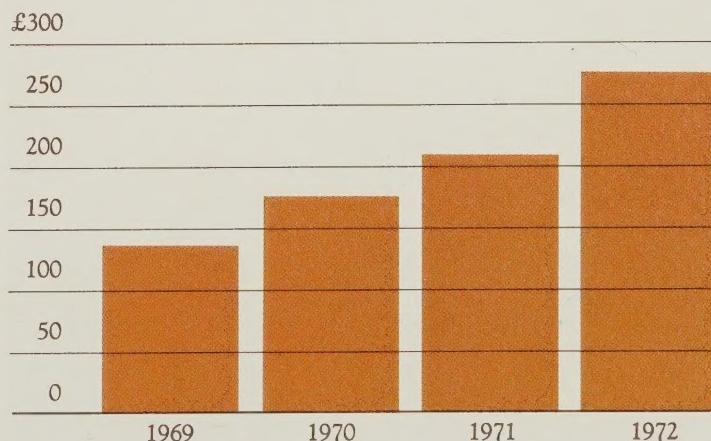
Mills & Boon's general and educational books are exported to all English language markets, including Canada and the United States. In some instances, special North American editions are published under the Mills & Boon imprint in Toronto.

Outlook. The Mills & Boon Division should continue to grow in both sales and profits. Using Harlequin's penetration of the Canadian market as a guide, Mills & Boon's sales of romantic fiction in the British and the overseas markets can be expanded significantly. A Mills & Boon direct mail operation modelled on the lines of the Harlequin Reader Service was begun in late 1972. This should yield increasingly larger profits over the next several years.

DIVISIONAL NET REVENUE
(in thousands of pounds sterling)



DIVISIONAL PROFITS PRE-TAX
(in thousands of pounds sterling)



Included in consolidated corporate figure only from 1 October 1971. Translation rate in 1972 averages £1 = \$2.48.



Since the late 1950's, your Company has published Mills & Boon romantic fiction for North American markets under the imprint *Harlequin Romances*. Harlequin has begun to publish selected nonfiction under the Mills & Boon imprint for the same markets. In 1972, the Harlequin Book Division's revenues were \$7,828,000, an increase of 150% from \$3,134,000 in 1971. Pre-tax profits increased by 160% to \$2,916,000.

Distribution. Harlequin's publications are distributed throughout Canada by Har-Nal Distributors Limited, a sales company owned 50% by Harlequin and 50% by New American Library of Canada Limited. In the United States, Harlequin's national distributor is Simon & Schuster, Inc., a leading American publishing house whose paperbacks are sold through the Pocket Books · Ace Distribution Corp. With Har-Nal in Canada and Pocket Books · Ace in the United States, Harlequin has effective distribution organizations covering the entire North American market.



Revenues from sales of these romance paperbacks in North America were increased by 150% in 1972 over 1971.

Sales. In March of 1972 the retail price of *Harlequin Romances* was increased by 10¢ from 50¢ to 60¢. The price increase was successfully implemented in both the United States and Canada. *Harlequin Romances* still provide inexpensive reading compared to the average paperback which is priced at \$1.10, with few priced at under 75¢. Relative to the average paperback book, *Harlequin Romances* are less expensive today than they were eight years ago.

Traditionally, paperback books are sold in North America under conditions which permit return to the publisher for full credit. Total returns of *Harlequin Romances* in 1972 were approximately 20% of all books shipped, which was a slight improvement over the averages for 1971 and 1970. Returns of Harlequin paperbacks are significantly less than the industry average of 45% to 50%.

During 1972, the Harlequin Book Division published a new series of paperback books for the winemaking hobbyist in North America. Working from editions



Over 600 backlist titles are now in print and being distributed through the Reader Service in either hardcover or paperback.

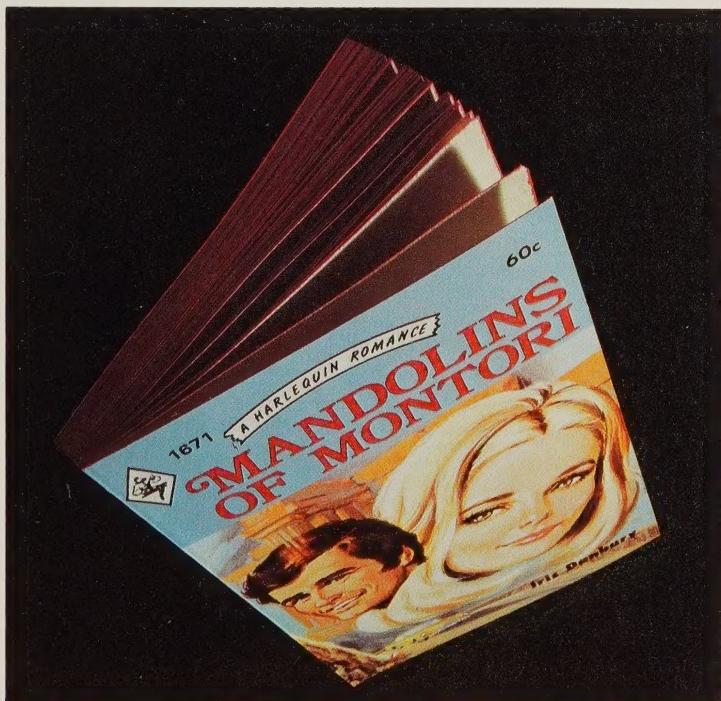


originally published by Mills & Boon in England, Harlequin editors prepared special North American editions. Sales of the initial four titles in the Foremost Wine and Beer Library are very encouraging.

Harlequin Reader Service. The Harlequin Reader Service was established in 1970 to service requests for older Harlequin titles no longer available on bookstands. In 1971, the Reader Service began to publish backlist titles in hardcover under the *Golden Harlequin Library* imprint.

Over 600 of the 1,200 *Harlequin Romances* in the Division's backlist are now in print, in either paperback or hardcover format. The backlist business has been successful and Harlequin is now establishing certain qualified retailers in a Harlequin Headquarters Store programme to provide special retail distribution for the wide range of backlist titles.

Outlook. 1972 was a successful year for the Harlequin Book Division. Sales and profits improved in all segments of the market. The new distribution arrangements mentioned in the 1971 Annual Report proved effective and we expect this performance to continue throughout 1973. Using sales development in the Canadian market as a guide, sales of *Harlequin Romances* and related publications can grow importantly in the United States for some years to come.

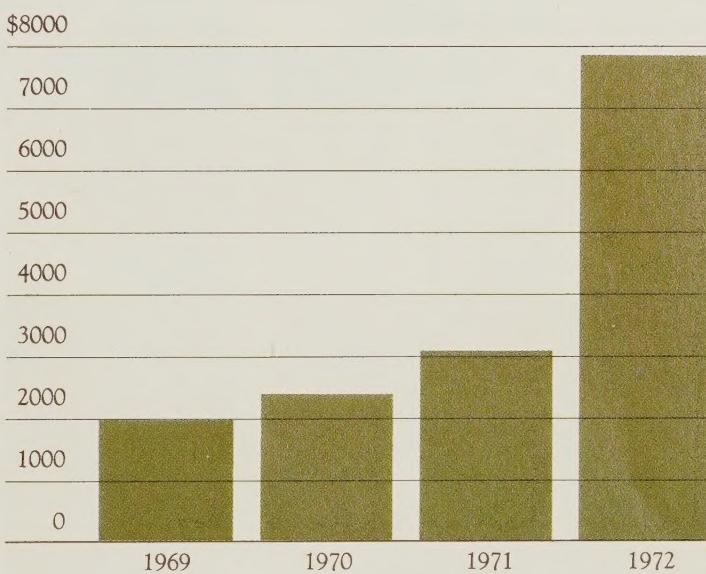


A unique merchandising feature has been the consecutive numbering of each paperback title since the Company began operations. The last publication in 1972 was number 1671.

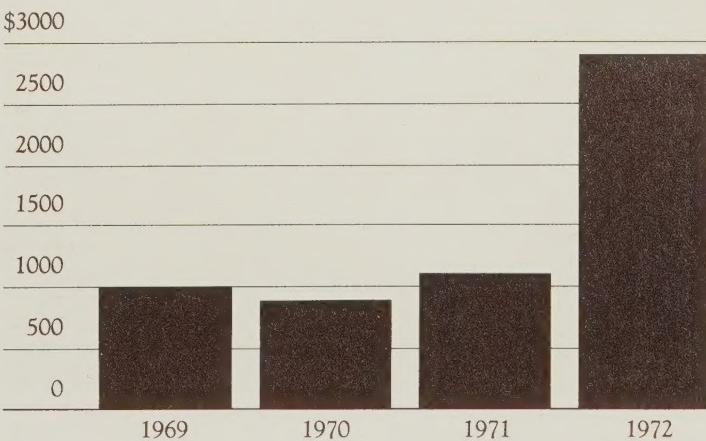
In April 1973, a new monthly *Harlequin Magazine* will be published. This publication is in response to many letters from Harlequin readers and will initially be promoted in North America for subscription sale.

A new line of romantic fiction will be published in North America in May. These books will centre on three very popular and prolific Mills & Boon authors who write stories which are more modern than those in the regular Harlequin series. The new series will bear the imprint *Harlequin Presents...* Priced at 75¢, the books will be distributed across North America as a companion line to the *Harlequin Romances*.

DIVISIONAL NET REVENUE
(in thousands of dollars)



DIVISIONAL PROFITS PRE-TAX
(in thousands of dollars)





The Learning Materials Division comprises Scholar's Choice Limited, a distributor of teaching aids and library books, and Learning Concepts Limited, a publisher of educational materials. The Division's total revenues in 1972 were \$4,318,000, an increase of 7% from \$4,027,000 in 1971. Pre-tax profits in 1972 were \$69,500 compared to a \$66,000 pre-tax loss in 1971.

Scholar's Choice Limited. Scholar's Choice Limited is the successor to the Jack Hood School Supplies Company Limited, acquired by your Company in 1969, and Nor-Ed Supplies Limited, acquired in 1970.

Scholar's Choice distributes a full range of classroom products (with the exception of furniture) which it buys from manufacturers in Canada, United States and abroad. The Company also has a library division which distributes Canadian and imported educational books, including certain United States lines for which it is Canadian national distributor.

While the main market for Scholar's Choice has been Ontario, an increasingly larger proportion of the Company's sales is derived from other provinces. The Company sells through its own sales force as well as through an extensive catalogue merchandising programme.



A multi-media approach to education can require filmstrips, slides, songs, games and support literature.

Harlequin's entry into the learning materials business in early 1969 encountered setbacks, due primarily to structural changes in the Ontario school board market and to restrictions on Provincial spending in this sector. The history of this, and the steps toward recovery in the subsequent two years, were described in the 1971 Annual Report.

In 1972, the consolidation of the Hood and Nor-Ed operations was completed by closing the Nor-Ed warehouse in North Bay, Ontario and consolidating the operations in Stratford. The expenses of this move have been fully written off in 1972.

Learning Concepts Limited. Learning Concepts Limited was established in 1971 to publish Canadian educational materials for the North American markets. During 1971, six new products were developed and marketing was begun. In 1972, the Company's efforts were concentrated on marketing these materials and on developing one additional programme, Sydney Cylinder's Primary Mathlab.



Musical instruments, workbooks, innovative methodology and library books meet basic educational needs.



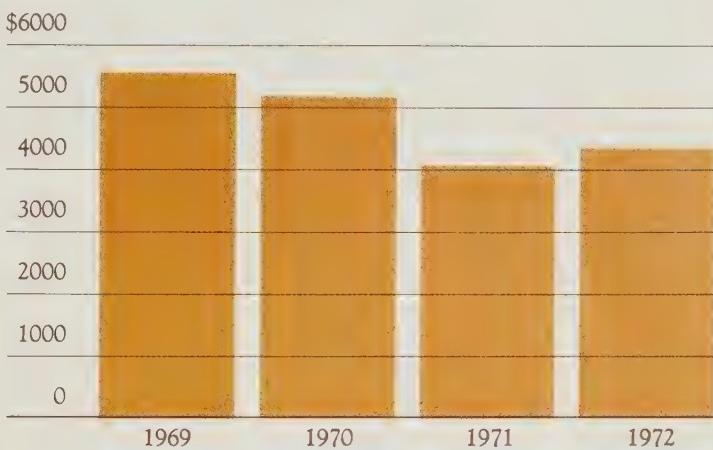
The development of Learning Concepts Limited will proceed gradually along conservative lines. Management does not intend to invest substantial sums in new product development, but rather to build gradually a backlist of successful products as a base for future growth.

Outlook. The profits of the Learning Materials Division showed an encouraging improvement in 1972, while sales increased modestly. The 1972 results indicate that the reorganization of Scholar's Choice is complete. We anticipate that, barring major changes in the educational markets, the Division will again increase its profit in 1973.

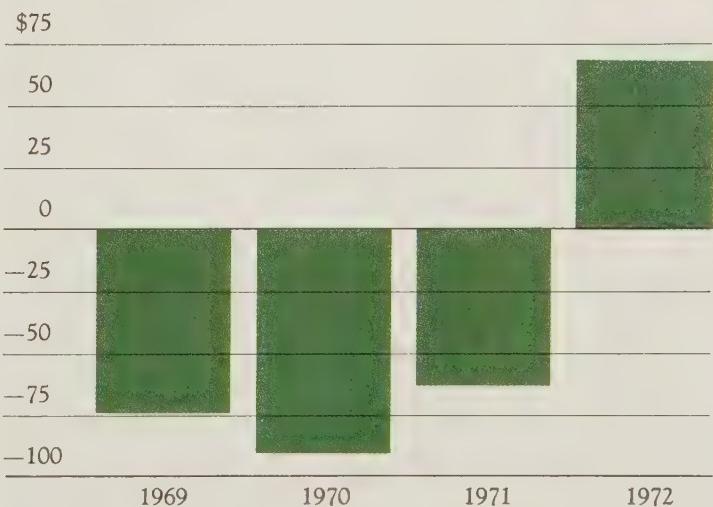


Specific educational markets are served through the creation of special supplementary programmes by Learning Concepts Limited.

DIVISIONAL NET REVENUE
(in thousands of dollars)



DIVISIONAL PROFITS PRE-TAX
(in thousands of dollars)



Included in consolidated corporate figures as follows: Jack Hood School Supplies Co. Ltd. from 1 April 1969; Nor-Ed Supplies Ltd. from 1 January 1970; and Learning Concepts Ltd. from 1 January 1971.

Consolidated Financial Statements



HARLEQUIN ENTERPRISES LIMITED
(Incorporated under the laws of Canada)

Auditors' Report

To the Shareholders of Harlequin Enterprises Limited:

We have examined the consolidated balance sheet of Harlequin Enterprises Limited as at December 31, 1972 and the consolidated statements of earnings and retained earnings, and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the consolidated financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 23, 1973

Clarkson, Gordon & Co.,
Chartered Accountants

Consolidated Statement of Earnings and Retained Earnings



For the Year Ended December 31, 1972
(with comparative figures for 1971)

HARLEQUIN ENTERPRISES LIMITED

	1972	1971
NET SALES AND ROYALTY INCOME:		
Publishing	\$10,958,502	\$3,949,593
Learning materials	4,318,266	4,027,032
	\$15,276,768	\$7,976,625
EARNINGS FROM OPERATIONS BEFORE THE FOLLOWING:	\$ 3,388,620	\$ 945,185
Deduct (add):		
Interest on long-term debt	129,595	24,229
Exchange adjustment (note 1)	112,608	
Depreciation (note 4)	54,335	45,429
Miscellaneous income	(26,111)	(37,661)
	270,427	31,997
EARNINGS BEFORE INCOME TAXES	3,118,193	913,188
Income taxes	1,541,000	459,000
NET EARNINGS FOR THE YEAR	1,577,193	454,188
RETAINED EARNINGS, BEGINNING OF YEAR	1,674,926	1,220,730
	3,252,119	1,674,926
Dividends declared	113,695	
RETAINED EARNINGS, END OF YEAR	\$ 3,138,424	\$1,674,926
EARNINGS PER SHARE (note 7):		
Basic	\$ 1.09	\$ 0.32
Adjusted basic	\$ 0.98	
Fully diluted	\$ 0.93	\$ 0.31

(See accompanying notes to consolidated financial statements)

Consolidated Balance Sheet

December 31, 1972
 (with comparative figures at December 31, 1971)

Assets

	1972	1971
CURRENT ASSETS:		
Cash	\$ 276,861	\$ 12,930
Deposit receipts	815,000	1,141,352
Accounts receivable	3,249,594	2,743,353
Inventories, at the lower of cost and net realizable value	2,098,706	2,263,485
Prepaid expenses and other current assets (note 3)	516,243	388,935
 TOTAL CURRENT ASSETS	6,956,404	6,550,055
 FIXED ASSETS, at cost (note 4)	594,676	571,153
Less accumulated depreciation	393,299	359,978
 201,377	211,175	
 OTHER:		
Excess of cost of investments in subsidiaries over net book value at acquisition	3,704,080	3,704,080
Deferred income tax charges	122,200	167,700
Sundry investments	40,548	30,963
Deferred financing charges	30,410	
 3,866,828	3,933,153	
 \$11,024,609	\$10,694,383	

(See accompanying notes to consolidated financial statements)



HARLEQUIN ENTERPRISES LIMITED

Liabilities and Shareholders' Equity

	1972	1971
CURRENT LIABILITIES:		
Bank indebtedness (note 5)	\$ 426,927	\$ 782,891
Accounts payable and accrued charges	1,286,230	1,422,158
Due to affiliates	128,721	
Dividends payable	113,695	
Income taxes payable	1,439,873	680,476
Provision for book returns	824,865	398,677
Balance of purchase commitment (note 2)		794,381
 TOTAL CURRENT LIABILITIES	 4,220,311	 4,078,583
 LONG-TERM DEBT:		
Purchase commitment (note 2)	3,069,381	
Less current portion	794,381	
	2,275,000	
 SHAREHOLDERS' EQUITY:		
Capital stock (note 6)—		
Authorized:		
3,000,000 common shares without nominal or par value		
Issued:		
1,650,936 common shares (1,400,936 in 1971)	3,665,874	2,665,874
Retained earnings (note 1)	3,138,424	1,674,926
	6,804,298	4,340,800
	\$11,024,609	\$10,694,383

APPROVED BY THE BOARD:

DIRECTOR

DIRECTOR

Consolidated Statement of Source and Application of Funds



For the Year Ended December 31, 1972

(with comparative figures for 1971)

	1972	1971
SOURCE OF FUNDS:		
Net earnings for the year	\$1,577,193	\$ 454,188
Add (deduct) —		
Depreciation	54,335	54,200
Deferred income tax charges	45,500	(24,700)
Deferred financing charges	30,410	
Loss (gain) on disposal of fixed assets	1,307	(1,828)
Miscellaneous	415	(963)
Funds from operations	1,709,160	472,126
Long-term portion of purchase commitment for Mills & Boon Limited	2,275,000	
Other	5,000	
TOTAL FUNDS PROVIDED	1,709,160	2,752,126
APPLICATION OF FUNDS:		
Repayment of bank loan	1,275,000	
Conversion of debentures	\$1,000,000	
Less common shares issued therefor	<u>1,000,000</u>	
Dividends	113,695	
Fixed assets	45,844	26,346
Excess of cost of investment in shares of subsidiary company over book value of net assets	1,729,443	
Deferred financing charges	30,410	
Reduction in miscellaneous long-term debt	27,096	
Other	10,000	500
TOTAL FUNDS APPLIED	1,444,539	1,813,795
INCREASE IN WORKING CAPITAL	264,621	938,331
WORKING CAPITAL, BEGINNING OF YEAR	2,471,472	1,533,141
WORKING CAPITAL, END OF YEAR	\$2,736,093	\$2,471,472

(See accompanying notes to consolidated financial statements)



December 31, 1972

HARLEQUIN ENTERPRISES LIMITED

1. Basis of consolidation and exchange translation

The accompanying financial statements consolidate the accounts of the Company and its subsidiaries, all of which are wholly-owned. The subsidiaries comprise Mills & Boon Limited, a British company, and three Canadian companies—Scholar's Choice Limited, Nor-Ed Supplies Limited and Learning Concepts Limited.

The statements of Mills & Boon Limited have been translated to Canadian dollars as follows: current assets and liabilities at exchange rates prevailing at December 31; other assets at exchange rates prevailing at date of acquisition; income and expenses at average rates during the period. The exchange adjustment (\$112,608) resulting from such translation practices has been charged to consolidated earnings.

Transfers of earnings from the United Kingdom are subject to the approval of exchange control authorities, but permission to pay dividends is normally obtainable. Such dividends are also subject to withholding taxes, which taxes will be reflected in consolidated earnings at the time of actual dividend remittance.

2. Acquisition of Mills & Boon Limited

Effective October 1, 1971, the Company acquired all of the shares of Mills & Boon Limited, a United Kingdom book publisher. The results of Mills & Boon have been consolidated from that date. This acquisition was accounted for as a purchase and was financed as follows:

BANK LOAN		
long term portion		\$1,275,000
9% DEBENTURES		
convertible into common shares of the Company at the rate of 250 shares for each \$1,000 principal amount		1,000,000
		2,275,000
BANK LOAN		
current portion	\$225,000	
CASH	569,381	794,381
CASH PAID IN 1972		\$3,069,381

The vendors were also given warrants exercisable to February 7, 1977 to subscribe for 100,000 shares of the Company @ \$4.50 per share, which price exceeded the market price at acquisition.

During 1972 the bank loan was repaid and the 9% Debentures were converted into common shares of the Company.

3. Prepaid expenses and other current assets

Prepaid expenses and other current assets include prepaid income taxes of \$418,000 (\$211,800 in 1971) relating to provisions made for accounting purposes which have not yet become deductible for tax purposes.

4. Fixed assets

The major categories of fixed assets at December 31, 1972 are as follows:

	COST	ACCUMULATED DEPRECIATION	RATES
BUILDING	\$ 61,638	\$ 40,386	5%
MACHINERY AND EQUIPMENT	375,523	268,885	15-20%
VEHICLES	76,604	35,219	25-30%
LEASEHOLD IMPROVEMENTS	77,161	48,809	
	590,926	393,299	
LAND	3,750		
	\$594,676	\$393,299	

Straight line depreciation is written on leasehold improvements over the terms of the leases, and the diminishing balance method is applied to the other depreciable assets at the rates shown above.

5. Bank indebtedness

A subsidiary has assigned its accounts receivable (\$632,000) as security for the bank indebtedness.

6. Capital stock

The Company has set aside 100,000 authorized common shares for the exercise of share purchase warrants (referred to in note 2).

During the year 250,000 common shares were issued (valued by the directors of the Company at \$1,000,000) on conversion of the 9% Debentures (note 2).

7. Earnings per share

Basic earnings per share have been computed on the basis of the weighted average number of shares outstanding during each year.

Adjusted basic earnings per share reflect adjustments to earnings and to the weighted average number of shares outstanding during the year that would have resulted if all the 9% Debentures had been converted on January 1, 1972.

Fully diluted earnings per share for 1972 are based on the adjusted basic earnings referred to above, with a further adjustment to reflect the assumed conversion, as of January 1, 1972, of the share purchase warrants referred to in note 2 (the funds derived therefrom being assumed to produce an annual return of 7% before applicable income taxes). Fully diluted earnings for 1971 assume the conversion of the 9% Debentures and the exercise of the share purchase warrants as of October 1, 1971 (the date from which the earnings of Mills & Boon Limited have been included in consolidation).

8. Remuneration of directors and officers

The aggregate remuneration (\$3,200 of which was to the directors, as such) charged to consolidated earnings for the year ended December 31, 1972 in respect of eight directors (four of whom were also officers), and three other officers of the Company, was as follows:

BY HARLEQUIN ENTERPRISES LIMITED	\$183,260
BY MILLS & BOON LIMITED	76,010
	\$259,270



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Pakistan
Sri Lanka
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Turkey

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New Zealand
Philippines
Singapore

Australasia





HARLEQUIN ENTERPRISES LIMITED

Report for the First Half
June 30, 1972



August 18, 1972

To the Shareholders:

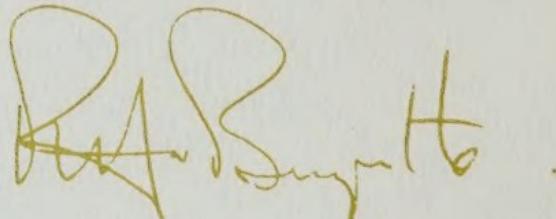
We are pleased to report that during the first six months of 1972 your Company earned an after-tax profit of \$641,000 or 45.7¢ per share, on sales of \$7.1 million. During the corresponding period of 1971, earnings were \$211,100 or 15.1¢ per share on sales of \$3.6 million. On a fully diluted basis, the 1972 earnings equal 38.1¢ per share, compared with 15.1¢ per share for the previous year's first half.

Working capital increased by \$504,000 in the first half of 1972. The main application of funds was the reduction of long-term debt by \$150,000.

All Divisions of the Company are achieving their budgets. We are optimistic that the success enjoyed in the first six months will continue throughout the second half of the year.

Your Company will be introducing to the North American market two new series of books in September. Steps are also being taken to publish the Romance series in several foreign languages. These activities are anticipated to have a beneficial effect on future earnings.

On behalf of the Board

A handwritten signature in black ink, appearing to read "Richard A. N. Bonnycastle".

*Richard A. N. Bonnycastle
Chairman*



**Consolidated Statement of Earnings
For the six months ended June 30, 1972 (unaudited)
(with comparative figures for 1971)**

(in thousands of dollars)	1972		1971	
	April 1 to June 30	January 1 to June 30	April 1 to June 30	January 1 to June 30
Sales and royalty income	\$3,797.1	\$7,058.0	\$1,910.5	\$3,638.5
Cost of goods sold and operating expenses	3,110.9	5,853.5	1,692.7	3,203.1
Earnings before income taxes	686.2	1,204.5	217.8	435.4
Provision for income taxes	326.5	563.5	110.1	224.3
Net earnings for the period	\$ 359.7	\$ 641.0	\$ 107.7	\$ 211.1
Earnings per share:				
Basic	25.6¢	45.7¢	7.8¢	15.1¢
Fully diluted	21.4¢	38.1¢	7.8¢	15.1¢

**Consolidated Statement of Source and Application of Funds
For the six months ended June 30, 1972 (unaudited)
(with comparative figures for 1971)**

(in thousands of dollars)	1972	1971
SOURCE OF FUNDS:		
Net earnings for the period	\$ 641.0	\$ 211.1
Add (deduct)—		
Depreciation	29.0	20.3
Deferred income tax charges	10.1	—
Equity in earnings of Greywood Publishing Limited	(.5)	(6.5)
Funds from Operations	679.6	224.9
Repayment of advance	—	6.0
TOTAL FUNDS PROVIDED	679.6	230.9
APPLICATION OF FUNDS:		
Reduction in long-term debt	150.0	4.8
Fixed assets purchased	25.6	2.8
TOTAL FUNDS APPLIED	175.6	7.6
INCREASE IN WORKING CAPITAL	504.0	223.3
WORKING CAPITAL, BEGINNING OF PERIOD	2,471.5	1,533.1
WORKING CAPITAL, END OF PERIOD	\$2,975.5	\$1,756.4

HARLEQUIN ENTERPRISES LIMITED

Board of Directors

Richard A. N. Bonnycastle, Chairman

John T. Boon, C.B.E., Deputy Chairman

Managing Director, Mills & Boon Limited

Lawrence L. Bell

Retired Partner, Richardson Securities of Canada

Lawrence C. Bonnycastle

Vice Chairman,
Canadian Corporate Management Company Limited

Alan W. Boon
Editorial Director (Fiction), Mills & Boon Limited

W. Lawrence Heisey
President, Harlequin Enterprises Limited

Ruth P. Palmour
Secretary-Treasurer, Harlequin Enterprises Limited

Daniel Sprague
President, James B. Carter Limited

Officers

W. Lawrence Heisey, President

William F. Willson, Vice President

Richard H. Bellringer, Vice President

Ruth P. Palmour, Secretary-Treasurer

Martin A. Reaume, Comptroller

Corporate Information

Corporate Office Suite 404, 101 Duncan Mill Road,
Don Mills 405, Ontario

Auditors Clarkson, Gordon & Co., Toronto

Legal Counsel Davies, Ward & Beck, Toronto

Bankers The Toronto-Dominion Bank

Exchange Listing The Toronto Stock Exchange

